Magareng Local Municipality
Annual Financial Statements
for the year ended 30 June 2010

General Information

Legal form of entity	Magareng Local Municipality is a local municipality performing the functions as set out in the Constitution.(Act no 105 of 1996).
Nature of business and principal activities	Municipality
The following is included in the scope of operation	The municipality provides sustainable, effective and efficient municipal services.
Mayoral committee	
Executive Mayor	GD Makena
Councillors	MB Macomo
	GE Manopole
	ER Mpitso
	JG Moleele
	W Johnson
	OM Majola
	MMM Bosman
	H Visagie
Grading of local authority	Low Capacity
Accounting Officer	Mr Kotlhao Shadrack Mere
Chief Finance Officer (CFO)	Mr HS Oberholzer
Business address	Magrieta Prinsloo Street Warrenton 8530
Postal address	PO Box 10 Warrenton 8530
Bankers	ABSA Bank Uys Street, Warrenton,8530
Auditors	Auditor General - Kimberley
Attorneys	Towell & Groenewaldt Rugby House, Roper Street, Kimberley, 8301

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The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
HOD	Head of Department
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act

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MIG	Municipal Infrastructure Grant (Previously CMIP)
MLM	Magareng Local Municipality
MSIG	Municipal Systems Improvement Grant
FMG	Financial Management Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is partially dependent on National Government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

I am responsible for the preparation of these annual financial statements, in terms of Section 126(1) of the Municipal Finance Management Act.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 28 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government’s determination in accordance with this Act..

The annual financial statements set out on pages 6 to 56, which have been prepared on the going concern basis, were approved by the accounting officer on 13 October 2010 and were signed on its behalf by:

Mr Kotlhao Shadrack Mere
Municipal Manager

AUDITOR-GENERAL

Report of the Auditor General

To the Council of Magareng Local Municipality

Report on the financial statements

This report will be inserted after the audit of the annual financial statements.

Auditor General - Kimberley

Statement of Financial Position

	Note(s)	2010	2009
Assets			
Current Assets			
Inventories	3	15,067	18,939
Trade and other receivables from exchange transactions	4	157,132	-
Other receivables from non-exchange transactions	5	856,780	977,719
VAT receivable	6	914,566	1,203,468
Consumer debtors	7	36,343,519	27,038,953
Investments	8	9,099,458	9,857
Cash and cash equivalents	9	1,121,339	2,431
		48,507,861	**29,251,367**
Non-Current Assets			
Investment property	10	-	-
Property, plant and equipment	11	154,907,895	161,930,135
Intangible assets	12	-	-
		154,907,895	**161,930,135**
Non-Current Assets		154,907,895	161,930,135
Current Assets		48,507,861	29,251,367
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**203,415,756**	**191,181,502**
Liabilities			
Current Liabilities			
Other financial liabilities	13	44,586	121,427
Trade and other payables from exchange transactions	14	27,985,871	27,918,254
Consumer deposits	15	506,365	456,110
Bank overdraft	9	-	2,036,873
		28,536,822	**30,532,664**
Non-Current Liabilities			
Other financial liabilities	13	-	39,128
Retirement benefit obligation	16	5,120,000	4,247,000
Unspent conditional grants and receipts	17	15,015,552	904,787
Provisions	18	1,673,017	1,296,765
		21,808,569	**6,487,680**
Non-Current Liabilities		21,808,569	6,487,680
Current Liabilities		28,536,822	30,532,664
Liabilities of disposal groups		-	-
Total Liabilities		**50,345,391**	**37,020,344**
Assets		203,415,756	191,181,502
Liabilities		(50,345,391)	(37,020,344)
Net Assets		**153,070,365**	**154,161,158**
Net Assets			
Accumulated surplus		153,070,365	154,161,158

Statement of Financial Performance

	Note(s)	2010	2009
Revenue			
Rendering of services		62,415	37,310
Property rates	22	-	2,997,810
Service charges	23	16,552,586	14,013,152
Rental of facilities and equipment		8,135	43,342
Interest received (trading)		1,948,355	3,151,099
Fines		105,099	141,760
Licences and permits		440,201	424,700
Government grants & subsidies	24	28,544,657	15,057,870
Miscellaneous other revenue		-	18,606
Commissions received		13,590	-
Other income		1,477,500	77,923
Interest received - investment	25	160,364	455,378
Total Revenue		**49,312,902**	**36,418,950**
Expenditure			
Personnel	26	(17,236,219)	(15,079,692)
Remuneration of councillors	27	(2,018,195)	(1,747,078)
Depreciation and amortisation	28	(9,964,631)	(10,619,365)
Finance costs	29	(17,738)	(35,790)
Debt impairment	30	(5,518,723)	(4,426,197)
Repairs and maintenance		(942,856)	(939,842)
Bulk purchases	31	(9,094,642)	(6,050,886)
Grants and subsidies paid	32	(3,993,063)	-
General Expenses	33	(6,015,759)	(4,416,512)
Total Expenditure		**(54,801,826)**	**(43,315,362)**
Revenue		49,312,902	36,418,950
Expenditure		(54,801,826)	(43,315,362)
Other		-	-
Deficit for the year		**(5,488,924)**	**(6,896,412)**

Statement of Changes in Net Assets

	Other NDR	Accumulated surplus	Total net assets
Balance at 01 July 2008	**270,758**	**(13,791,367)**	**(13,520,609)**
Changes in net assets			
Surplus for the year	-	(6,896,412)	(6,896,412)
Retirement Benefit Obligation brought in	-	(3,281,000)	(3,281,000)
Depracition previous year	-	10,619,363	10,619,363
Revalue of assets	-	161,930,136	161,930,136
Water Inventory captured	-	18,939	18,939
Assets 2009 written off	-	(290,664)	(290,664)
Revolving Fund written off to Accumulated Surplus	-	5,970,291	5,970,291
Write back Capital Redemption	-	(118,128)	(118,128)
Reserves written off in 2009	(270,758)	-	(270,758)
Total changes	(270,758)	167,952,525	167,681,767
Balance at 01 July 2009	**-**	**154,161,156**	**154,161,156**
Changes in net assets			
Amounts corrected against Accumelated Surplus	-	2,862,817	2,862,817
Prior year balances written off	-	928,314	928,314
Previous years cheques cancelled	-	607,002	607,002
Net income (losses) recognised directly in net assets	-	4,398,133	4,398,133
Surplus for the year	-	(5,488,924)	(5,488,924)
Total recognised income and expenses for the year	-	(1,090,791)	(1,090,791)
Total changes	-	(1,090,791)	(1,090,791)
Balance at 30 June 2010	**-**	**153,070,365**	**153,070,365**

Note(s)

Cash flow statement

	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		20,607,881	20,905,702
Grants		28,544,657	15,057,870
Interest income		160,364	455,378
		49,312,902	36,418,950
Payments			
Employee costs		(19,254,414)	(16,826,770)
Suppliers		(20,046,320)	(11,407,240)
Finance costs		(17,738)	(35,790)
Other cash item		5,309,313	(17,360,143)
		(34,009,159)	(45,629,943)
Total receipts		49,312,902	36,418,950
Total payments		(34,009,159)	(45,629,943)
Net cash flows from operating activities	35	**15,303,743**	**(9,210,993)**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(2,942,392)	(1,852,470)
Purchase of investments		(9,089,601)	-
Proceeds from sale of investments		-	4,726,921
Net cash flows from investing activities		**(12,031,993)**	**2,874,451**
Cash flows from financing activities			
Repayment of other financial liabilities		(115,969)	(118,130)
Net cash flows from financing activities		**(115,969)**	**(118,130)**
Net increase/(decrease) in cash and cash equivalents		**3,155,781**	**(6,454,672)**
Cash and cash equivalents at the beginning of the year		(2,034,442)	4,420,230
Cash and cash equivalents at the end of the year	9	**1,121,339**	**(2,034,442)**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Available-for-sale financial assets

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The municipality recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The municipality recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the municipality to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the municipality to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit

1.2 Investment property (continued)

when the compensation becomes receivable.

Transitional provision

The municipality changed its accounting policy for investment property in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 10. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and investment property has accordingly been recognised at provisional amounts, as disclosed in 10.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also

1.3 Property, plant and equipment (continued)

included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Buildings	30
Furniture and fixtures	7-10
Motor vehicles	
• Specialist vehicles	10
• Other vehicles	5
• 3-7	
Leasehold improvements	
• Leased Assets	22*
Infrastructure	
• Roads and paving	30
• Pedestrain Malls	30
• Electricity	20-30
• Water	15-20
• Sewerage	15-20
• Housing	30
Community	
• Improvements	30
• Recreational Facilities	20-30
• Security	5
Other property, plant and equipment	2-5
Bins and containers	5
Water network	15-20

* Leased Assets - If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset will be fully depreciated over the shorter of the lease term and its useful life, as stated in GRAP 13.

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is

1.3 Property, plant and equipment (continued)

depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 11. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 11.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

1.4 Intangible assets (continued)

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

Transitional provision

The municipality changed its accounting policy for intangible assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in 12. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where intangible assets was acquired through a transfer of functions, the municipality is not required to measure that intangible assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and intangible assets has accordingly been recognised at provisional amounts, as disclosed in 12.

Until such time as the measurement period expires and intangible assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets

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1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit exclude dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

1.5 Financial instruments (continued)

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial instruments designated as at fair value through surplus or deficit

are financial assets that meet either of the following conditions:

¨ they are classified as held for trading; or
¨ upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Financial instruments designated as available for sale.

Financial instruments designated as available-for-sale

are financial assets that are designated as available for sale or are not classified as:

¨ Loans and Receivables;
¨ Held-to-Maturity Investments; or
¨ Financial Assets at fair value through the Statement of Financial Performance.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

1.5 Financial instruments (continued)

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

1.5 Financial instruments (continued)

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality’s continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.6 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to other comprehensive income; or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Accounting Policies

1.7 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Transitional provision

The municipality changed its accounting policy for inventories in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and inventories has accordingly been recognised at provisional amounts, as disclosed in note 3.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any

1.8 Inventories (continued)

associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.10 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

Accounting Policies

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

1.12 Provisions and contingencies (continued)

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in 18.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.13 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

1.14 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

1.14 Revenue from non-exchange transactions (continued)

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the fair value of the debt forgiven. Where debt is carried at a value other than fair value, the receivable is recognised at the carrying amount.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Services in-kind are recognised as revenue and as assets.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Accounting Policies

1.21 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Presentation of currency

These annual financial statements are presented in South African Rand.

1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.24 Internal reserves

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution (Number … dated…..) A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

1.25 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.26 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.27 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.28 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

	2010	2009

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

• GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	Accounting policies, changes in accounting estimates and errors
GRAP 5	Borrowing Cost
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in joint ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial reporting in hyperinflationary economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations
GRAP 102	Intangible Assets
IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 6	Exploration for and evaluation of mineral resources
IFRS 7	Financial instruments: Disclosures
IAS 12	Income taxes
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 39	Financial Instruments: Recognition and measurement
IAS 36	Impairment of assets
IPSAS 20	Related Parties
IPSAS 21	Impairment non-cash generating assets
GAMAP 9.29 - .35 & .39 - .54	Revenue
IGRAP 1	Applying the probability test on initial recognition of exchange revenue
IFRIC 2	Members’ Shares in Co-operative Entities and Similar Instruments
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
SIC 21	Income Taxes – Recovery of Re-valued Non-Depreciable Assets
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
SIC 27	Disclosure – Service Concession Arrangements
Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
Directive 2	Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions
Directive 3	Transitional Provisions for the Adoption of Standards of GRAP by High Capacity Municipalities
Directive 4	Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities
Directive 5	Determining the GRAP Reporting Framework
ASB guide 1	Guideline on Accounting for Public Private PartnershipsOther 10

	2010	2009

2. Changes in accounting policy (continued)

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2009 is as follows:

Statement of financial position

	2010	2009
Property, plant and equipment		
Previously stated	-	290,663
Adjustment	-	162,993,915
	-	**163,284,578**
Inventories		
Previously stated	-	-
Adjustment	-	18,939
	-	**18,939**
Consumer Debtors		
Previously stated	-	28,017,388
Adjustment	-	(978,433)
	-	**27,038,955**
Other receivables from non-exchange transactions		
Previously stated	-	-
Adjustment	-	977,719
	-	**977,719**
Creditors		
Previously stated	-	26,715,500
Adjustment	-	1,202,755
	-	**27,918,255**
Accumulated surplus		
Previously stated	-	(3,250,254)
Adjustment	-	163,012,856
	-	**159,762,602**
Trust Funds		
Previously stated	-	904,787
Transfer to Unspent conditional grants and receipts	-	(904,787)
	-	**-**
Unspent Conditinal grants and receipts		
Previously stated	-	-
Adjustment	-	904,787
	-	**904,787**
Defined Benefit Obligation		
Previously stated	-	-
Adjustment	-	4,247,000
	-	**4,247,000**

Notes to the Annual Financial Statements

	2010	2009

2. Changes in accounting policy (continued)

Statement of financial performance

Contribution to revolving Fund

	2010	2009
Previously stated	-	131,119
Adjustment	-	(131,119)
	-	**-**

External Loans - Redemption

	2010	2009
Previously stated	-	71,589
Adjustment	-	(71,589)
	-	**-**

Depreciation

	2010	2009
Previously stated	-	-
Adjustment	-	10,619,365
	-	**10,619,365**

Defined Benifit Obligation Expense

	2010	2009
Previously stated	-	-
Adjustment	-	966,000
	-	**966,000**

3. Inventories

	2010	2009
Water	15,067	18,939

Transitional provisions

Inventories recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain inventories with a carrying value of R 15,067 (2009: R 18,939) was recognised at provisional amounts.

4. Trade and other receivables from exchange transactions

	2010	2009
Sundry debtors	157,132	-

5. Other receivables from non-exchange transactions

	2010	2009
Other receivables from non-exchange revenue	856,780	977,719

6. VAT receivable

	2010	2009
VAT	914,566	1,203,468

	2010	2009

7. Consumer debtors

Gross balances		
Rates	10,203,966	12,261,314
Electricity	6,562,701	3,413,059
Water	18,468,414	15,832,798
Sewerage	10,858,827	11,643,014
Refuse	9,975,471	9,711,825
Housing and other	920,221	473,451
Other (interest)	5,096,694	7,180
	62,086,294	**53,342,641**
Less: Provision for debt impairment		
Rates	(6,359,628)	(6,029,862)
Electricity	(1,824,548)	(1,684,655)
Water	(7,776,720)	(7,814,925)
Sewerage	(5,200,469)	(5,746,886)
Refuse	(4,445,888)	(4,793,669)
Housing rental	(135,522)	(233,691)
	(25,742,775)	**(26,303,688)**
Net balance		
Rates	3,844,338	6,231,452
Electricity	4,738,153	1,728,404
Water	10,691,694	8,017,873
Sewerage	5,658,358	5,896,128
Refuse	5,529,583	4,918,156
Housing and other	784,699	239,760
Other (Interest)	5,096,694	7,180
	36,343,519	**27,038,953**
Rates		
Current (0 -30 days)	-	347,162
31 - 60 days	1,729	310,037
61 - 90 days	10,202,237	302,512
91 - 120 days	-	11,301,603
Less: Provision for debt impairment	(6,359,628)	(6,029,862)
	3,844,338	**6,231,452**
Electricity		
Current (0 -30 days)	1,222,079	386,168
31 - 60 days	533,097	204,661
61 - 90 days	389,175	123,564
91 - 120 days	4,418,350	2,698,666
Less: Provision for debt impairment	(1,824,548)	(1,684,655)
	4,738,153	**1,728,404**
Water		
Current (0 -30 days)	420,456	360,023
31 - 60 days	568,651	324,791
61 - 90 days	363,329	301,629
91 - 120 days	17,115,978	14,846,355
Less: Provision for debt impairment	(7,776,720)	(7,814,925)
	10,691,694	**8,017,873**

	2010	2009

7. Consumer debtors (continued)

Sewerage

Current (0 -30 days)	206,949	342,189
31 - 60 days	199,641	341,798
61 - 90 days	198,442	327,498
91 - 120 days	10,253,795	10,631,529
Less: Provision for debt impairment	(5,200,469)	(5,746,886)
	5,658,358	**5,896,128**

Refuse

Current (0 -30 days)	208,766	306,265
31 - 60 days	197,108	282,739
61 - 90 days	190,677	274,720
91 - 120 days	9,378,920	8,848,101
Less: Provision for debt impairment	(4,445,888)	(4,793,669)
	5,529,583	**4,918,156**

Housing and other

Current (0 -30 days)	9,836	7,052
31 - 60 days	16,009	6,933
61 - 90 days	5,123	6,962
91 - 120 days	889,253	452,504
Less: Provision for debt impairment	(135,522)	(233,691)
	784,699	**239,760**

Other (Interest)

Current (0 -30 days)	511,683	7,180
31 - 60 days	507,170	-
61 - 90 days	501,777	-
91 - 120 days	3,576,064	-
	5,096,694	**7,180**

Summary of debtors by customer classification

Consumers

Current (0 -30 days)	2,315,645	510,473
31 - 60 days	1,794,110	1,394,572
61 - 90 days	1,492,534	1,223,493
91 - 120 days	53,552,333	48,676,862
	59,154,622	**51,805,400**

Industrial/ commercial

Current (0 -30 days)	203,009	7,448
31 - 60 days	164,527	13,949
61 - 90 days	92,561	12,720
91 - 120 days	1,160,026	259,217
	1,620,123	**293,334**

	2010	2009

7. Consumer debtors (continued)

National and provincial government		
Current (0 -30 days)	61,114	4,391
31 - 60 days	63,040	85,319
61 - 90 days	65,158	81,585
91 - 120 days	1,122,238	1,020,432
	1,311,550	**1,191,727**

Total		
Current (0 -30 days)	2,579,769	1,756,039
31 - 60 days	2,021,676	1,470,959
61 - 90 days	1,650,253	1,336,885
91 - 120 days	55,834,597	48,778,757
	62,086,295	53,342,640
Less: Provision for debt impairment	(25,742,776)	(26,303,687)
	36,343,519	**27,038,953**

Less: Provision for debt impairment		
Less: Provision for debt impairment	(25,742,775)	(26,303,688)

Reconciliation of debt impairment provision		
Balance at beginning of the year	(26,303,688)	(21,965,595)
Contributions to provision	(5,518,722)	(4,338,318)
Debt impairment written off against provision	6,079,635	225
	(25,742,775)	**(26,303,688)**

8. Investments

ABSA		
8 Day Call Account	9,099,458	9,857

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,000	2,431
Bank balances	1,120,339	-
Bank overdraft	-	(2,036,873)
	1,121,339	**(2,034,442)**

Current assets	1,121,339	2,431
Current liabilities	-	(2,036,873)
	1,121,339	**(2,034,442)**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2010	30 June 2009	30 June 2008	30 June 2010	30 June 2009	30 June 2008
ABSA BANK - Cheque Account - 2290000036	2,656,865	(318,329)	-	1,120,339	(2,036,873)	-
ABSA BANK - 8 Day Notice Account - 2066073855	9,099,457	9,257	-	9,099,457	9,857	-
Total	**11,756,322**	**(309,072)**	**-**	**10,219,796**	**(2,027,016)**	**-**

	2010	2009

10. Investment property

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

When the municipality's policy is to subsequently measure investment property on the cost model, when the municipality cannot determine the fair value of the investment property reliably, the municipality must disclose:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and

Transitional provisions

Investment property recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain investment property with a carrying value of R - (2009: R -) was recognised at provisional amounts.

11. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	16,282,834	-	16,282,834	16,282,834	-	16,282,834
Buildings	11,081,822	(738,284)	10,343,538	11,081,822	(369,142)	10,712,680
Infrastructure	279,358,533	(153,740,196)	125,618,337	276,719,652	(144,904,451)	131,815,201
Other property, plant and equipment	5,642,801	(2,979,615)	2,663,186	5,339,290	(2,219,870)	3,119,420
Total	**312,365,990**	**(157,458,095)**	**154,907,895**	**309,423,598**	**(147,493,463)**	**161,930,135**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Land	16,282,834	-	-	16,282,834
Buildings	10,712,680	-	(369,142)	10,343,538
Infrastructure	131,815,201	2,638,881	(8,835,745)	125,618,337
Other property, plant and equipment	3,119,420	303,511	(759,745)	2,663,186
	161,930,135	**2,942,392**	**(9,964,632)**	**154,907,895**

Reconciliation of property, plant and equipment - 2009

11. Property, plant and equipment (continued)

	Opening balance	Additions	Revaluations	Depreciation	Total
Land	3,407,445	-	12,875,389	-	16,282,834
Buildings	-	-	11,081,822	(369,142)	10,712,680
Furniture and fixtures	2,235,117	678,086	(2,913,203)	-	-
Infrastructure	35,483,465	12,091,287	229,144,900	(144,904,451)	131,815,201
Other property, plant and equipment	-	-	5,339,290	(2,219,870)	3,119,420
Park facilities	4,672,690	1,961,790	(6,634,480)	-	-
Water network	6,798,366	1,299,165	(8,097,531)	-	-
Housing development fund	3,166,954	-	(3,166,954)	-	-
Loans Redeemed and other capital Receipts	(55,355,144)	(14,177,858)	69,533,002	-	-
	408,893	**1,852,470**	**307,162,235**	**(147,493,463)**	**161,930,135**

Pledged as security

Carrying value of assets pledged as security:

Revaluations

The effective date of the revaluations was 30 June 2008. Revaluations were performed by Combined Systems (Infrastructure) and Daniel Benjamin Grobler (Professional Associated Valuer, Member of the S.A Institute of Valuers and Member of the Council for the Property Valuers Profession, Professional Registration number 2311), from Anzel Trading 1024 trading as: Uluntu Valuations (Land and Buildings). Both contractors are not connected to the municipality.

A revaluation of PPE was done during the year and in terms of Grap 17, paragraph 91 - " Where, on adoption of the accrual basis of accounting, an entity initially recognises property, plant and equipment on adoption of this Standard, the entity shall report the effect of the initial recognition of property, plant and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the Standard is first adopted."

Land and buildings are re-valued independently every 4 years as per the Municipal Property Rates Act, 6 of 2004.

The infrastructure was revalued using the current replacement cost to determine the fair value of infrastructure assets as no historical cost was available:

Current Replacement Costs

Fixed assets was valued using the cost of modern equivalent assets that would be installed today in order to provide the same level of service as the assets in place.
The replacement costs as at 1 July 2008 was calculated with the best information available and the sources will be disclosed.

Assets Descriptions and Classification

Since some reports are sorted alphabetically on asset description, the NATO Nomenclature (North Atlantic Treaty Organization) naming convention will be followed as far as possible. NATO requires that the most important attribute is to be the primary determinant in the asset description with the progressively less important attributes following. The asset description will therefore reflect the preponderance of common attributes in the order of importance attached to it and the degree of homogeneity with which differences between assets are regarded.
The National Treasury asset classification structure will be used as guideline and assets of Emthanjeni Local Municipality to be classified accordingly. The importance of asset classification is to ensure the correct depreciation of each item (component) with a cost that is significant in relation to the total cost of the asset.

Measurement of Cost

Fixed assets for which the historical expenditure can be directly substantiated with documentary proof, will be brought into account by the Depreciated Cost methodology. Where no historical information is available the Depreciated Replacement Cost methodology will be used to bring the assets into account.

Age & Condition Assessment

	2010	2009

11. Property, plant and equipment (continued)

Although we are not sworn evaluators, a 'face value' assessment of the condition of the infrastructure fixed assets will be done in conjunction with the responsible asset controller of the Municipality.
If the age of the asset cannot be determined fairly reliably it will be assumed that the asset has been in use for half of its useful life.

Land and buildings are re-valued independently every 5 years.

The valuation was performed using the discounted cash flow approach (other, describe, e.g. recent arms length transaction), and the following assumptions were used:
Discount rate
Other
Other.

These assumptions were based on current market conditions.

The carrying value of the revalued assets under the cost model would have been:

Other information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

12. Intangible assets

Transitional provisions

Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain intangible assets with a carrying value of R - (2009: R -) was recognised at provisional amounts. The Municipality will determine these values during the 2011 financial year.

13. Other financial liabilities

	2010	2009
At fair value through surplus or deficit		
Ford Credit	-	51,120
Daimler Chrysler	44,586	109,435
	44,586	**160,555**
	44,586	160,555
	-	-
Non-current liabilities		
Fair value through surplus or deficit	-	39,128
Current liabilities		
Fair value through surplus or deficit	44,586	121,427
	-	39,128
	44,586	121,427
	44,586	**160,555**

14. Trade and other payables from exchange transactions

	2010	2009
Trade payables	20,305,226	23,189,679
Payments received in advanced - debtors	1,251,110	-
Deposits received	10,967	-
Other creditors	6,418,568	4,728,575

	2010	2009

14. Trade and other payables from exchange transactions (continued)

	27,985,871	**27,918,254**

15. Consumer deposits

Consumer Deposits	506,365	456,110

16. Retirement benefits

Defined contribution plan

Post Medical Aid Benefit Obligation
A full valuation report is available at the Municipal Offices.

Reconciliation of the opening and closing balances of the present value of the defined benefit obligation:

Opening defined benefit obligation	(4,247,000)	(3,433,000)
Service Cost (Excludes employee contribution)	(311,000)	(253,000)
Interest Cost	(410,000)	(382,000)
Actuarial (losses)/ gains	(246,000)	(331,000)
Benefits paid	94,000	152,000
Closing defined benefit obligation	(5,120,000)	(4,247,000)

The amounts recognised in the Statement of Financial Performance for the current year is as follow:

Service cost	311,000	253,000
Interest cost	410,000	382,000
Actuarial losses/(gains)	246,000	331,000
	967,000	**966,000**

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Peanut Oil Project	972,239	972,239
MIG	6,197,404	(27,131)
MSIG	(1)	434,260
Library Development	242,663	91,009
EPWP - Hospital Road	(389,146)	136,219
Provincial Infrastucture Grant -Sewerage Plant	7,637,634	16,941
Sports Facilities	(779,143)	(779,143)
Umsobomvu Youth Fund	-	60,393
DBSA Grant	150,094	-
EPWP - Taxi Rank	983,808	-
	15,015,552	**904,787**

Movement during the year

Balance at the beginning of the year	904,787	4,912,458
Additions during the year	42,655,422	8,001,831
Income recognition during the year	(28,544,657)	(12,009,502)
	15,015,552	**904,787**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

17. Unspent conditional grants and receipts (continued)

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 24 for reconciliation of grants from National/Provincial Government.

18. Provisions

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Total
Leave Provision	1,296,765	468,694	(92,442)	1,673,017

Reconciliation of provisions - 2009

	Opening Balance	Utilised during the year	Total
Leave Provision	1,633,624	(336,859)	1,296,765

Environmental rehabilitation: Landfill sites

No provision for reclamation of refuse landfill sites was made as the permit holder is Frances Baard District Municipality and they are liable for the rehabilitation.

Provision for Accrued Leave

The provision for accrued leave have been calculated on the stipulation of the SALGBC maximum accrued leave days of 48 days per employee.

Transitional provisions

Provisions recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain provisions was recognised at provisional amounts.

19. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2010

	Loans and receivables	Held to maturity investments	Total
Trade and other receivables	157,132	-	157,132
Cash and cash equivalents	1,121,339	-	1,121,339
Investments	-	9,099,458	9,099,458
Other receivables from non-exchange transactions	856,780	-	856,780
Consumer Debtors	36,343,519	-	36,343,519
	38,478,770	**9,099,458**	**47,578,228**

2009

	Loans and receivables	Held to maturity investments	Total

Notes to the Annual Financial Statements

	2010	2009

19. Financial assets by category (continued)

Cash and cash equivalents	2,431	-	2,431
Investments	-	9,857	9,857
Other receivables from non-exchange transactions	977,719	-	977,719
Consumer Debtors	27,038,953	-	27,038,953
	28,019,103	**9,857**	**28,028,960**

20. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2010

	Financial liabilities at amortised cost	Total
Other financial liabilities	44,586	44,586
Trade and other payables	27,985,871	27,985,871
Unspent conditional grants	15,015,552	15,015,552
	43,046,009	**43,046,009**

2009

	Financial liabilities at amortised cost	Total
Other financial liabilities	160,555	160,555
Trade and other payables	27,918,255	27,918,255
Bank overdraft	2,036,873	2,036,873
Unspent conditional grants	904,787	904,787
	31,020,470	**31,020,470**

21. Revenue

	2010	2009
Rendering of services	62,415	37,310
Property rates	-	2,997,810
Service charges	16,552,586	14,013,152
Rental of facilities & equipment	8,135	43,342
Fines	105,099	141,760
Licences and permits	440,201	424,700
Government grants & subsidies	28,544,657	15,057,870
Miscellaneous other revenue	-	18,606
	45,713,093	**32,734,550**

The amount included in revenue arising from exchanges of goods or services are as follows:

	2010	2009
Rendering of services	62,415	37,310
Service charges	16,552,586	14,013,152
Rental of facilities & equipment	8,135	43,342
Licences and permits	440,201	424,700
Miscellaneous other revenue	-	18,606
	17,063,337	**14,537,110**

The amount included in revenue arising from non-exchange transactions is as follows:

	2010	2009
Property rates	-	2,997,810

Notes to the Annual Financial Statements

21. Revenue (continued)

	2010	2009
Fines	105,099	141,760
Government grants & subsidies	28,544,657	15,057,870
	28,649,756	**18,197,440**

Notes to the Annual Financial Statements

	2010	2009

22. Property rates

Rates received

Property rates	-	2,997,810

The valuation of land was performed every four years and the general valuation came into effect on 1 July 1994. The basic rate was 0.0090c in the Rand for residential on market value and 0.0150c in the Rand for business and 0.000375 for agricultural. A rebate on all residential properties with a market value of less than the amount as annually determined by the municipality (R15000) are exemted from paying rates.

2009/2010 Valuation Roll

All municipalities are required to compile and implement a valuation roll in terms of the Municipal Property Rates Act, (No 6 of 2004) by no later than 1 July 2009. Municipalities failing to compile and implement a roll in terms of the deadlines as set out in the Act, are prohibited from levying Property Rates until such a time that a valuation roll prepared according to the act have been completed and all legal requirements in terms of the Municipal Property Rates Act and Municipal Finance Management Act (No56 of 2003) have been adhered to.

Due to financial constraints, Magareng Municipality was unable to fund the valuation process, and Francis Baard District Municipality (FBDM) took the responsibility on themselves to assist Magareng to comply with the act. FBDM appointed a valuer through their procurement processes and they continued to compile a valuation role. Due to various unforeseen issues, the valuation roll was not accepted by FBDM and therefore Magareng Municipality will be unable to levy any Property Rates for the 2009/2010 financial year. FBDM however once again took it upon themselves to assist Magareng Municipality and during a Council meeting held on 27 May 2009 approved an assistance package to the value of R3,5 million to substitute the loss of Rates Income for 2009/2010. They further undertook to assist the municipality by appointing a new valuer to compile a valuation roll to be implemented from 1 July 2010.

By the time of approving and sumitting the 2009/2010 Operational Budget a date still had to be set for a formal consultation between FBDM, Magareng Municipality, National Treasury, Provincial Treasury and the Department of Housing and LocalGovernment Northern Cape to discuss the correct financial disclosure of the transactions within the accounting recordsof FDBM and Magareng Municipality.

Uluntu Valuators were appointed to conduct general valuations as per the MPRA. Due to the delay in the valuation process as described above, Council resolved that the MRPA be implemented on 01 July 2010 with the valuation date 01 July 2010. The process was finalised completely during the 2009/2010 financial year to enable implementation of the MPRA.

Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 30 September. Interest at prime plus 1% per annum, is levied on rates outstanding two months after due date. The new general valuation will be implemented on 01 July 2010.t

Valuations

Residential	279,833,400	-
Commercial	51,875,800	-
State	27,871,900	-
Municipal	9,464,522	-
Small holdings and farms	383,419,567	-
Property rates - Land	-	4,852,235
Property rates - Improvements	-	123,325,393
	752,465,189	**128,177,628**

Notes to the Annual Financial Statements

23. Service charges

	2010	2009
Sale of electricity	7,171,862	5,011,713
Sale of water	3,776,164	3,275,083
Sewerage and sanitation charges	3,013,202	3,307,934
Refuse removal	2,591,358	2,418,422
	16,552,586	**14,013,152**

	2010	2009

24. Government grants and subsidies

	2010	2009
Equitable share	18,187,219	14,911,782
FMG	750,000	-
MIG	1,616,465	-
MSIG	1,284,260	-
Frances Baard	4,960,899	-
DWAF	202,694	146,088
Provincial Infrastructure Grant	104,307	-
EPWP - Hospital Road	847,473	-
Umsobomvu Youth Fund	310,393	-
Library Development Fund	109,347	-
DBSA	171,600	-
	28,544,657	**15,057,870**

Equitable Share

	2010	2009
Balance unspent at beginning of year		
Current-year receipts	18,187,219	14,911,782
Conditions met - transferred to revenue	(18,187,219)	(14,911,782)
	-	**-**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of R152.09(2009: R133.12), which is funded from the grant.

Peanut Oil Project

	2010	2009
Balance unspent at beginning of year	972,239	972,239

Conditions still to be met - remain liabilities (see note 17)

MIG

	2010	2009
Balance unspent at beginning of year	(27,131)	2,515,764
Current-year receipts	7,841,000	3,915,899
Conditions met - transferred to revenue	(1,616,465)	(6,458,794)
	6,197,404	**(27,131)**

Conditions still to be met - remain liabilities (see note 17)

The Municipal Infrastructure Grant (MIG) is a conditional grant to support municipal capital budgets to fund municipal infrastructure and to upgrade existing infrastructure, primarily benefiting poor households.

MSIG

	2010	2009
Balance unspent at beginning of year	434,260	585,571
Current-year receipts	850,000	735,000
Conditions met - transferred to revenue	(1,284,260)	(886,311)
Other	(1)	-
	(1)	**434,260**

Conditions still to be met - remain liabilities (see note 17)

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions

	2010	2009

24. Government grants and subsidies (continued)

effectively.

Library Development Fund

Balance unspent at beginning of year	91,009	156,694
Current-year receipts	261,000	319,932
Conditions met - transferred to revenue	(109,347)	(385,617)
Other	1	-
	242,663	**91,009**

Conditions still to be met - remain liabilities (see note 17)

EPWP : Hospital Road

Balance unspent at beginning of year	136,219	448,848
Current-year receipts	322,108	-
Conditions met - transferred to revenue	(847,473)	(312,629)
	(389,146)	**136,219**

Conditions still to be met - remain liabilities (see note 17)

Sewerage Plant

Balance unspent at beginning of year	16,941	767,539
Current-year receipts	7,725,000	2,411,000
Conditions met - transferred to revenue	(104,307)	(3,161,598)
	7,637,634	**16,941**

Conditions still to be met - remain liabilities (see note 17)

Sports facilities

Balance unspent at beginning of year	(779,143)	(779,143)

Conditions still to be met - remain liabilities (see note 17)

Umsobomvu Youth Fund

Balance unspent at beginning of year	60,393	(25,812)
Current-year receipts	250,000	120,000
Conditions met - transferred to revenue	(310,393)	(33,795)
	-	**60,393**

Conditions still to be met - remain liabilities (see note 17)

25. Investment revenue

Interest revenue

Bank	160,364	455,378
	-	-
	160,364	455,378

Notes to the Annual Financial Statements

26. Employee related costs

	2010	2009
Basic	8,880,057	7,897,733
Bonus	708,423	644,527
Medical aid - company contributions	804,579	996,216
UIF	83,844	81,642
SDL	-	98,139
Leave pay provision charge	468,694	-
Post-employment benefits - Pension - Defined contribution plan	1,079,945	1,632,754
Travel, motor car, accommodation, subsistence and other allowances	380,121	431,080
Overtime payments	1,523,757	1,072,193
Acting allowances	118,826	-
Housing benefits and allowances	43,206	52,670
Industrial Council	473,300	5,385
Telephone Allowance	(11,730)	103,580
Standby Allowance	18,380	-
Termination benefits	967,000	966,000
	15,538,402	**13,981,919**

Remuneration of municipal manager

	2010	2009
Annual Remuneration	416,519	227,500
Travel Allowance	60,000	35,000
Contributions to UIF, Medical and Pension Funds	2,995	1,239
Cellphone Allowance	5,000	-
	484,514	**263,739**

Remuneration of chief finance officer

	2010	2009
Annual Remuneration	388,815	287,096
Car Allowance	-	31,000
Contributions to UIF, Medical and Pension Funds	13,107	13,197
Cellphone Allowance	3,750	-
	405,672	**331,293**

Remuneration of the HOD Technical Services

	2010	2009
Annual Remuneration	316,012	132,140
Travel Allowance	60,000	20,000
Contributions to UIF, Medical and Pension Funds	2,995	8,524
Cellphone Allowance	3,750	-
	382,757	**160,664**

Remuneration of the HOD Planning and Development

	2010	2009
Annual Remuneration	322,796	258,802
Travel Allowance	60,000	50,000
Contributions to UIF, Medical and Pension Funds	37,848	31,595
Cellphone Allowance	4,230	1,680
	424,874	**342,077**

27. Remuneration of councillors

	2010	2009
Mayor	541,431	501,670
Councillors	633,010	1,046,173
Councillors’ pension contribution	182,704	80,663

Notes to the Annual Financial Statements

	2010	2009

27. Remuneration of councillors (continued)

Travelling Allowance	427,279	115,080
Skills Development Levy	134,669	(4,500)
Cellphone Allowance	99,102	7,992
	2,018,195	**1,747,078**

28. Depreciation and amortisation

Property, plant and equipment	9,964,631	10,619,365

29. Finance costs

Non-current borrowings	17,738	-
Bank	-	35,790
	17,738	**35,790**

30. Debt impairment

Debt impairment	5,518,723	-
Contributions to debt impairment provision	-	4,426,197
	5,518,723	**4,426,197**

31. Bulk purchases

Electricity	6,954,617	4,415,463
Water	2,140,025	1,635,423
	9,094,642	**6,050,886**

32. Grants and subsidies

Other subsidies		
MSIG	762,954	-
Library Development	107,737	-
Sewerage Plant	12,362	-
Umsobomvu Youth Fund	395,910	-
FMG	702,902	-
Frances Baard	1,808,504	-
DWAF	202,694	-
	3,993,063	**-**
Grants paid to ME's	-	-
Other subsidies	3,993,063	-

Notes to the Annual Financial Statements

	2010	2009

33. General expenses

	2010	2009
Advertising	77,011	68,450
Auditors remuneration	1,265,999	189,363
Bank charges	175,053	187,717
Cleaning	8,945	162,402
Consulting and professional fees	713,291	4,930
Consumables	251,480	419,377
Debt collection	43,029	-
Entertainment	394,383	4,880
Insurance	-	535,550
Fuel and oil	454,262	500,391
Postage and courier	33,336	59,943
Printing and stationery	229,298	160,548
Protective clothing	39,706	62,060
Subscriptions and membership fees	100,000	68,494
Telephone and fax	247,255	355,160
Training	198,412	73,110
Travel - local	-	502,571
Departmental Charges	399,081	124,401
Sundry Expenses	284,639	43,188
Indigent Discounts	859,867	723,904
Special Projects	129,025	-
Chemicals	111,687	170,073
	6,015,759	**4,416,512**

34. Auditors' remuneration

	2010	2009
Fees	1,265,999	189,363

35. Cash generated from (used in) operations

	2010	2009
Deficit	(5,488,924)	(6,896,412)
Adjustments for:		
Depreciation and amortisation	9,964,631	10,619,365
Debt impairment	5,518,723	4,426,197
Movements in retirement benefit assets and liabilities	873,000	966,000
Movements in provisions	376,252	(336,861)
Other non-cash items	4,398,133	(2,306,360)
Changes in working capital:		
Inventories	3,872	18,939
Trade and other receivables from exchange transactions	(157,132)	-
Other receivables from non-exchange transactions	120,939	(536,257)
Consumer debtors	(14,823,289)	(13,073,674)
Trade and other payables from exchange transactions	67,616	1,179,457
VAT	288,902	441,515
Unspent conditional grants and receipts	14,110,765	(3,736,913)
Consumer deposits	50,255	24,011
	15,303,743	**(9,210,993)**

	2010	2009

36. Commitments

Authorised capital expenditure

	2010	2009
Already contracted for but not provided for		
• Property, plant and equipment	13,680,854	-
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	-	1,187,371

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, MIG Funds, existing cash resources, funds internally generated, etc.

37. Contingencies

Litigation is in the process against the municipality relating to a dispute with a service provider who alleges that the municipality did not pay him an outstanding amount of R95 743.38 for valuation services.

Litigation is in the process against the municipality relating to a dispute with a service provider who alleges that the municipality did not pay him for services provided (accomodation and subsistance) and is seeking damages of R594.00 including attorneys costs.

Litigation is in the process against the municipality relating to a dispute with a pension fund who alleges that the municipality failed to make payments to the Fund of the contributions for the periods of October and November 2009. The amount in dispute is R120 395.50 including interest.

Contingent assets

During April 2010 an amount of +/- R10 000,00 was reported lost at the Traffic Department. Investigation is still underway and the case must still be reported to the South African Police Service.

An amount of R3 180.00 was reported lost at the Ikhutseng Office. The cashier admitted quit. She was found quilty and she must repaid the money. Thecase was not reported to the South African Police Services.

During April 2010 an unknown amount was lost at the Warrenton Office. Investigation is still underway and the case must still be reported to the South African Police Service.

38. First-time adoption of Generally Recognised Accounting Practice

The municipality has applied GRAP 1, First-time adoption of Generally Recognised Accounting Practice, to provide a starting point for the reporting under Generally Recognised Accounting Practice. On principle these standards have been applied retrospectively and the 2009 comparatives contained in these annual financial statements differ from those published in the annual financial statements published for the year ended 30 June 2009.

The date of transition was 1 July 2009 and the effect of the transition was as follows.

Reconciliation of equity at 01 July 2009 (Date of transition to the new standards)

	Note	As reported under previous IMFO	Effects of transition to GRAP	GRAP
Trade and other receivables		28,017,388	(978,433)	27,038,955
Inventories		-	18,939	18,939
Other receivables		-	977,719	977,719
Total current assets		**28,017,388**	**18,225**	**28,035,613**

		2010	2009

38. **First-time adoption of Generally Recognised Accounting Practice (continued)**

Trade and other payables	26,715,500	1,202,755	27,918,255
Employee benefits	-	4,247,000	4,247,000
Total liabilities	**26,715,500**	**5,449,755**	**32,165,255**
Total non-current assets	-	-	-
Total current assets	28,017,388	18,225	28,035,613
Total liabilities	(26,715,500)	(5,449,755)	(32,165,255)
Total assets less total liabilities	**1,301,888**	**(5,431,530)**	**(4,129,642)**
Retained earnings/Accumulated Surplus	(3,250,254)	-	-

Reconciliation of equity at 30 June 2009

	Note	As reported under previous IMFO	Effects of transition to GRAP	GRAP
Property, plant and equipment	11	290,663	162,993,915	163,284,578
Consumer Debtors		28,017,388	(978,433)	27,038,955
Inventories		-	18,939	18,939
Other receivables		-	977,719	977,719
Total current assets		**28,017,388**	**18,225**	**28,035,613**
Trade and other payables		26,715,500	1,202,755	27,918,255
Employee benefits		-	4,247,000	4,247,000
Total liabilities		**26,715,500**	**5,449,755**	**32,165,255**
Total non-current assets		290,663	162,993,915	163,284,578
Total current assets		28,017,388	18,225	28,035,613
Total liabilities		(26,715,500)	(5,449,755)	(32,165,255)
Total assets less total liabilities		**1,592,551**	**157,562,385**	**159,154,936**
Retained earnings/Accumalated Surplus		(3,250,254)	157,411,412	154,161,158

Reconciliation of surplus or deficit for 2009

	Note	As reported under previous IMFO	Effects of transition to GRAP	GRAP
Accumulated Surplus/Loss as per IMFO Financial Statements		4,439,704	-	-
Gross surplus		4,439,704	-	-
Capital portion of loans redeemed written back		-	118,128	-
Revolfing fund conrtibutions written back		-	131,119	-
Depreciation 2009		-	(10,619,363)	-
Defined Benefit Obligation		-	4,247,000	-
Net deficit before tax		4,439,704	(6,123,116)	-
Net deficit		**4,439,704**	**(6,123,116)**	**(6,896,412)**

Notes

With the conversion to GRAP certain amounts that is non GRAP was written back and provision was made for depreciation.

	2010	2009

39. Related parties

Related party relationships exist between the municipality and the following parties: Municipal Manager, Chief Finance Officer, Directors of directorates, Mayor, Speaker, Councillors, Internal and Audit committee members.
Close family members of the family of the abovementioned parties.

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties		
Members of Council	43,554	41,468
Member of Key management	316	821

Related party transactions

Purchases from (sales to) related parties		
Members of Council	41,714	23,127
Member of Key management	5,651	1,655

Key management information

40. Comparative figures

Certain comparative figures have been reclassified. Please refer to Note 2.

41. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Interest rate risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyse its potential exposure to interest rate changes on a continuous basis. Different scenarios are

	2010	2009

41. Risk management (continued)

simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

The entity only deposits cash with major banks with high quality credit standing. Grants are receivable from higher order levels of government. The credit risk pertaining to these financial assets are considered to be low.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts.

Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

Foreign exchange risk

The municipality does not hedge foreign exchange fluctuations.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Price risk

The municipality is not exposed to price risk.

42. Going concern

We draw attention to the fact that at 30 June 2010, the municipality had accumulated deficits of R 153,070,365 and that the municipality's total liabilities exceed its assets by R 153,070,365.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

43. Events after the reporting date

No material transactions occured that could have a significant effect after the reporting date.

44. Unauthorised expenditure

	2010	2009
Remuneration of Councillors	141,610	-

	2010	2009

44. Unauthorised expenditure (continued)

Depreciation	7,947,527	-
Bulk Purchases	2,119,642	-
	10,208,779	**-**

The above main votes was overspend, but are awaiting Council condonement.

45. Fruitless and wasteful expenditure

Interest paid - ESKOM	80,631	-
Interest paid - Auditor General	20,998	-
Interest and penalties - SARS	97,519	-
	199,148	**-**

46. Irregular expenditure

Opening balance	-	-
Add: Irregular Expenditure - current year	-	-
Less: Amounts condoned	-	-
Less: Amounts not recoverable (not condoned)	-	-
	-	**-**

No irregular expenditure occured during the current year.

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	100,000	61,394
Amount paid - current year	(100,000)	(61,394)
	-	**-**

Audit fees

Opening balance	1,908,036	1,464,214
Current year subscription / fee	1,380,747	956,480
Amount paid - current year	(1,411,793)	(512,658)
	1,876,990	**1,908,036**

PAYE and UIF

Current year subscription / fee	1,677,787	750,000

Pension and Medical Aid Deductions

Current year subscription / fee	4,000,735	2,726,912

VAT

VAT receivable	914,566	1,203,468

Not all VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2010:

30 June 2010	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr W Johnson	3,360	8,334	11,694
Cllr H Visagie	781	493	1,274
Cllr ER Mpitso	1,021	897	1,918
Cllr GD Makena	8,598	7,025	15,623
Cllr MMM Bosman	166	(1,298)	(1,132)
Cllr OM Majola	162	2,905	3,067
Cllr GE Manopole	376	12,259	12,635
	14,464	**30,615**	**45,079**

30 June 2009	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr GE Manopole	445	610	1,055
Cllr W Johnson	1,667	2,927	4,594
Cllr H Visagie	457	438	895
Cllr ER Mpitso	527	426	953
Cllr GD Makena	1,765	-	1,765
Cllr MMM Bosman	1,043	-	1,043
Cll OM Majola	293	1,395	1,688
	6,197	**5,796**	**11,993**

48. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E1 for the comparison of actual operating expenditure versus budgeted expenditure.

49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

No deviations from supply chain management regulations occured.

Appendix A: Schedule of external loans

Magareng Local Municipality

APPENDIX A

June 2010

GOVERNMENT TEMPLATE: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

	Loan Number	Balance at 30 June 2009 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2010 Rand
External Loans					
Ford Credit	66901217&66904348	51,120	-	51,120	-
Mercedes Benz	208809	109,435	-	70,420	39,015
		160,555	**-**	**121,540**	**39,015**

Supplementary Information

Appendix B: Analysis of property, plant and equipment

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Magareng Local Municipality

Magareng Local Municipality

APPENDIX B for the period ended 30 June 2010

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2009

	Cost/Revaluation				Accumulated depreciation				
	Opening Balance Rand	Additions Rand	Depreciation Rand	Closing Balance Rand	Opening Balance Rand	Additions Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
Land and buildings									
	-	-	-	-	-	-	-	-	-
Infrastructure									
Other assets									
Total property plant and equipment									
Agricultural/Biological assets									
Intangible assets									
Investment properties									
Total									

Supplementary Information

Appendix C: Segmental analysis of property, plant and equipment

Magareng Local Municipality

APPENDIX C for the period ended 30 June 2010
June 2010

SEGMENTAL ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2007

	Cost/Revaluation					Accumulated depreciation				
	Opening Balance Rand	**Additions Rand**	**Work in process Rand**	**Depreciation Rand**	**Closing Balance Rand**	**Opening Balance Rand**	**Additions Rand**	**Depreciation Rand**	**Closing Balance Rand**	**Carrying value Rand**
Municipality										
Executive & Council/Mayor and Council	300,211,906	307,605	6,489,716	-	**307,009,227**	(145,429,566)	(9,256,389)	-	**(154,685,955)**	152,323,272
Finance & Admin/Finance	486,050	113,898	-	-	**599,948**	(271,224)	(107,912)	-	**(379,136)**	220,812
Planning and Development/Economic Development/Plan	83,150	-	-	-	**83,150**	(45,717)	(15,225)	-	**(60,942)**	22,208
Health/Clinics	-	-	-	-	-	-	-	-	-	-
Community Services	410,160	246,404	-	-	**656,564**	(185,929)	(65,067)	-	**(250,996)**	405,568
Housing	-	-	-	-	-	-	-	-	-	-
Coperate Services	135,430	-	-	-	**135,430**	(71,569)	(23,834)	-	**(95,403)**	40,027
Technical Services	3,879,350	2,321	-	-	**3,881,671**	(1,489,458)	(496,205)	-	**(1,985,663)**	1,896,008
Environmental Protection/Pollution Control	-	-	-	-	-	-	-	-	-	-
Waste Water Management/Sewerage	-	-	-	-	-	-	-	-	-	-
Road Transport/Roads	-	-	-	-	-	-	-	-	-	-
Water/Water Distribution	-	-	-	-	-	-	-	-	-	-
Electricity /Electricity Distribution	-	-	-	-	-	-	-	-	-	-
Other/Air Transport	-	-	-	-	-	-	-	-	-	-
	305,206,046	**670,228**	**6,489,716**	**-**	**312,365,990**	**(147,493,463)**	**(9,964,632)**	**-**	**(157,458,095)**	**154,907,895**

Supplementary Information

Appendix D: Segmental Statement of Financial Performance

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED

Prior Year			Current Year
Actual Income Rand	Actual Expenditure Rand		Actual Expenditure Rand
		Other charges	

Supplementary Information

Appendix E(1): Actual versus Budget (Revenue and Expenditure)

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APPENDIX E(1) for the ended 30 June 2010

	Current year 2009 Act. Bal. R'000	Prior Year # 1 2008 Act. Bal. R'000	Current year 2009 Act. Bal. R'000	Prior Year # 1 2008 Act. Bal. R'000	Current year 2009 Act. Bal. R'000	Current year 2009 Act. Bal. R'000	Prior Year # 1 2008 Act. Bal. R'000	Current year 2009 Act. Bal. R'000	Prior Year # 1 2008 Act. Bal. R'000	Current year 2009 Act. Bal. R'000	Prior Year # 1 2008 Act. Bal. R'000	Cur A
Revenue												
Other income												
Cost of sales												
Expenses												
Other revenue and costs												
Net surplus/ (deficit) for the year												

Supplementary Information

Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)

BUDGET ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2007

Land and buildings
Infrastructure
Community Assets
Heritage assets
Specialised vehicles
Other assets
Agricultural/Biological assets
Intangible assets
Investment properties

Total

Supplementary Information

Appendix F: Disclosure of grants and subsidies in terms of the Municipal Finance Management Act

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Magareng Local Municipality

APPENDIX F for the ended 30 June 2010
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003
June 2010

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Mar	Sep	Dec	Mar	Jun	Mar	Sep	Dec	Mar	Jun	Mar		Yes/ No	
Equitable Share	National Government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		Yes	
Minicipal Infrastructure Grant	National Government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		Yes	
MSIG		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Library Development		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
EPWP Hospital Road		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.